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IN THE

Supreme Court of the United States

October Term 1965
No. 1145

MATTEL, INC.,

Petitioner,

vs.

THEODORE R. DUNCAN, and TED DUNCAN, INC.,

Respondent.

Reply to Respondent's Brief Opposing Petition for Writ of Certiorari.

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Ordinarily we would not deem it necessary to answer a Respondent's Brief, but we feel we must in this case due to the inflammatory language and unfair accusations which are made in Respondent's Brief.

The Issue.

The question presented for review is almost correctly stated in the first paragraph on the top of page 7 of Respondent's Brief. If it is slightly revised, as stated below, petitioner will agree, and states the issue as follows:

Purely and simply the only question before this court is whether a patent license provision in the 1958 contract [Ex. "A"] that provides:

> "In the event Mattel shall manufacture or sell a different . . . voice box developed by some one

> other than . . . Duncan, and for which royalties are not payable to . . . Duncan hereunder, the patent rights . . . assigned by Duncan to Mattel on the voice box . . . shall at the option of . . . Duncan revert to . . . Duncan." (Resp. Br. p. 2, n. 1)

is invalid and void for patent misuse and/or antitrust violation and if so whether licensor Duncan cannot obtain specific performance of it and a reversion of patent rights under it by specific performance in the State Courts of California.

Respondent's Contentions.

(1) On page 7 of Respondent's Brief, Duncan contends the Ryan device is being used to the complete exclusion of Duncan. This is not so. Duncan and Ryan were being marketed simultaneously when the original arbitration demand was filed in 1960, and would still be so marketed if Duncan had not taken the position that he was entitled to a reversion in 1960 (See Resp. Br. p. 4). Thereafter, what sensible businessman would do otherwise than to mitigate his own further damage under Duncan's threat of reversion and possible forfeiture of even more than the approximately $100,000.00 already so threatened?

Thus, if the facts are considered on this Petition for Certiorari as they were when Duncan made his demand to the arbitrators—the unfairness of the uncalled for remarks and charges in the Reply Brief becomes crystal clear.

But if the threat of reversion and possible forfeiture were removed and accused paragraph 6 were purged, Mattel would commence new activity on this voice box, and has so offered to Duncan, but Duncan is demanding

return of his voice box, claiming that Mattel has breached the agreement by manufacturing Ryan's allegedly rival unit without paying any royalties to Duncan.

This is the vice of paragraph 6 of the 1958 contract.

It is not Duncan's right to compete that is involved here. It is Mattel's free and unfettered right to produce non-licensed products without thereby losing its license that is at stake.

(2) Page 8 of Respondent's Brief, calls Mattel's position on the diligence issue "shocking and misleading", yet that part of the California District Court of Appeal's opinion referred to, when considered *in toto,* fully supports Mattel's position, as follows:

> "In the arbitration proceedings, Duncan sought reversion of his patent rights under paragraphs 5 and 6. (Paragraph 5 provides for reversion if Mattel does not exercise due diligence in the manufacture and sale of the Duncan voice box. Paragraph 6 provides for reversion if Mattel manufactures other voice boxes upon which royalties are not payable to Duncan). In the trial court, and on appeal, the parties have made contentions as to whether or not the arbitrators found "due diligence" by Mattel. Paragraph (A) of the award specifically states that Duncan is entitled to reversion under paragraph 6 of the agreement (*i.e.,* because Mattel manufactured and sold other voice boxes). Although paragraph (E) of the award states that the award is in full settlement of all claims in the proceedings (which would include Duncan's claim to reversion under paragraph 5 for lack of 'due diligence'), this would not appear to be a finding of

> lack of due diligence because paragraph 5 of the agreement expressly provides that if the arbitrators find a lack of due diligence, such deficiency shall be specified and a reasonable time for compliance by Mattel shall be allowed. The award does not specify any deficiency as to Mattel's diligence or refer to Mattel's diligence." (D.C.A. Op. p. 7.)

Certainly the Arbitration Board could have said Mattel was not diligent and could have set up a standard for diligence as provided in paragraphs 2 and 5 of the agreement. It chose not to do so which can only mean that it found no lack of diligence—"unanimously—" and in favor of Mattel, therefore, on the issue of diligence.

Duncan did not appeal from this portion of the Award, so we must also assume that he did not choose to test it out in the court but instead tried to present his contentions in this regard before the court in connection with his argument on paragraph 6, where it is probably *not material.* (Duncan's Br. p. 9, para. 2.)

(3) A great deal is said about the fact that Mattel did not disclose the Ryan inventions to Duncan at the time the agreement was negotiated.

The record is clear that Duncan "knew that the Handlers (the principals of Mattel) had been interested in these ideas and worked on them for years." [See Duncan deposition of record herein, pp. 37-39.]

There is no reason why Mattel cannot successfully produce and sell both the Ryan and Duncan devices, which Mattel has offered to do as above noted if Duncan will stop interfering with Mattel by costly litigation and demands for reversion, which make it necessary for Mattel to protect itself at great expense and to delay

manufacturing new toys incorporating the Duncan device until its title to the Duncan patents is cleared and the threat of forfeiture under Paragraph 6 is removed.

(4) Counsel for respondent contends that the cases cited by petitioner are not controlling and accuses petitioner of a "startling and misleading" statement in our Brief at page 6.

We submit that there is nothing "startling or "misleading" about this statement as Mattel has taken this position regarding Paragraph 6's invalidity since the Arbitration began. To repeat, Mattel contends that Paragraph 6 is invalid when construed to require Mattel to give up the Ryan unit in order to retain the licensed Duncan patents.

Then, certainly, the cases cited by petitioner are in point — and controlling.

Conclusion.

It is requested that this Court grant certiorari in this case to advise the respondent and the public that in a patent licensing agreement, and regardless of what language is used, if the practical effect thereof is to restrain the licensee from using and selling unpatented (by Duncan) products, it is invalid. At least the invalid paragraph should not *per se* be enforcible!

Respectfully submitted,

ALBERT M. HERZIG,
Attorney for Petitioner.